

JP Morgan's New Cryptocurrency

Source: [Giza Death Star](#)

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February 19, 2019

You may or may not have heard of this, but in case you haven't, Mr. J.T. sent this article, and it's worth your attention. As most regular readers here are aware, I'm not a big cryptocurrency fan. In fact, I'm very skeptical of them. They started out being touted as "virtually impregnable", and so they were, until people learned how to start hacking and stealing. Their biggest selling point, however, was something akin to a battle cry, that they would by-pass the central banks, and a new utopia of central-bank-free transaction would emerge and we'd have debt-free money (i.e., *real* money) and everything would be Wonderful.

Then came the stories that the Old Lady of Threadneedle Street, the Bank of England, were doing their own study of a gold-backed crypto, so the central banking part of the narrative sort of fell apart (at least, for a while), then we heard no more about the Bank of England thing, and the narrative of a central-bank-free crypto-utopia re-emerged, though not with as much wind in its sails as before.

Well, another bank is now announcing its own cryptocurrency, and though it's not a central bank, it might as well be:

[JPMorgan is creating a cryptocurrency pegged to the dollar](#)

Oh joy... JP Morgan is getting into the cryptocurrency parade... what could *possibly* go wrong?

Well, for starters, consider this:

JPMorgan Chase is developing a new cryptocurrency called JPM Coin whose value will be tied to the US dollar, the bank said on Thursday. The new private blockchain platform is designed to help large JPMorgan clients move money around the world. The new cryptocurrency will be built atop JPMorgan's [Quorum](#) blockchain technology, a variant of Ethereum that has been modified to serve the needs of a major financial institution like JPMorgan.

The Ethereum network is public and open to anyone; Quorum is a private blockchain where a network owner can control who has access. All transactions on the Ethereum network are visible to everyone on the network. In contrast, nodes in the Quorum network can create encrypted transactions (and smart contracts) that are only visible to parties to the transaction.

Quorum also jettisons the wasteful proof-of-work algorithm that secures the Ethereum network in favor of a simpler scheme that relies on majority voting among network nodes.

Wait... whoa! what the heck does *that* mean, that bit about the network's being secured by "a simpler scheme that relies on majority voting among network nodes." Majority vote of whom? JP Morgan stockholders? Federal reserve stockholders?

Ah... wait...presumably it means this:

Public blockchain networks like Ethereum use proof-of-work algorithms to guard against [Sybil attacks](#), in which someone tries to take over a network by creating a lot of zombie nodes. But Sybil attacks aren't a concern in a permissioned blockchain like Quorum, because each node is tied to a real-world identity that has been vetted by the network owner.

Whew! I feel better now! Thank you JPMorgan for vetting nodes

and determining which ones are real or not. I feel like a real person again! At least, I'm beginning to feel more like a node.

But there's another big catch toward the end of the article:

A [big unanswered question](#) here is what value is added by doing this as a blockchain network rather than a conventional database running on JPMorgan servers. The selling point of a conventional blockchain network like bitcoin or Ethereum is that it's open for anyone to participate and therefore can enable cooperation among people who don't otherwise trust each other.

But JPM Coin is only going to be open to JPMorgan customers. And two parties who are both JPMorgan customers can already rely on JPMorgan as a trusted intermediary for any financial transactions they might want to undertake. So it's not clear how using a blockchain is helpful.

So, in all seriousness, what's really going on here? Well, in my high octane speculation of the day, I suspect what we're looking at is "a scheme", a "scheme" rather like those "robo-signed" mortgages of yesteryear, only this one may be much cleverer. Indeed, Mr. J.T., when he sent along this article, spotted it immediately. Gee, surprise surprise! A "scheme?" From a Rockefeller bank? Say it isn't so! So...

...what's the "scheme"?

Well, toward the middle of the article there are these two things: first, you'll note that the new crypto's value is tied to the dollar, mentioned toward the beginning of the article. This is affirmed elsewhere:

The value of bitcoins and Ethereum's ether float on the open market. In contrast, JPMorgan will guarantee that each JPM Coin can be redeemed for \$1.

Then there's the second thing:

There's also the potential to expand this system to other types of transactions. The system is flexible enough to have JPM Coins denominated in euros, yen, or other major currencies. There's also the possibility that it could be used to facilitate the sale and transfer of other assets, like stocks or bonds.

So what might be really going on? My high octane speculation – and I think I'm on the end of the twig on this one – is that this is an attempt to create a version of the old European “Snake”, the Exchange Rate Mechanism whereby the currencies of smaller countries were pegged, within certain percentage points of valuation, against the German Deutschmark. When currencies fluctuated outside that benchmark, the central bank (in this case, the Bundesbank) stepped in to restabilize those currencies. It was this mechanism which France later joined, and the emergent result was the euro and the Eurozone. So it's those parts about JPMorgan's new crypto being tied to (1) the dollar and (2) the possibility of expanding that to handle other currencies and possibly even types of securities that really catches the eye, for it suggests that it is a move to peg other currencies, *and securities, to the dollar and dollar-evaluation*. Think of it as a kind of combination of SWIFT, the Exchange Rate Mechanism, and a securities brokerage all in one fell swoop. And, oh yea, lest I forget, you'll notice it's also a nifty move to allow JPMorgan to become a kind of international central bank, too.

See you on the flip side...